



# Activity

# Based

# Costing



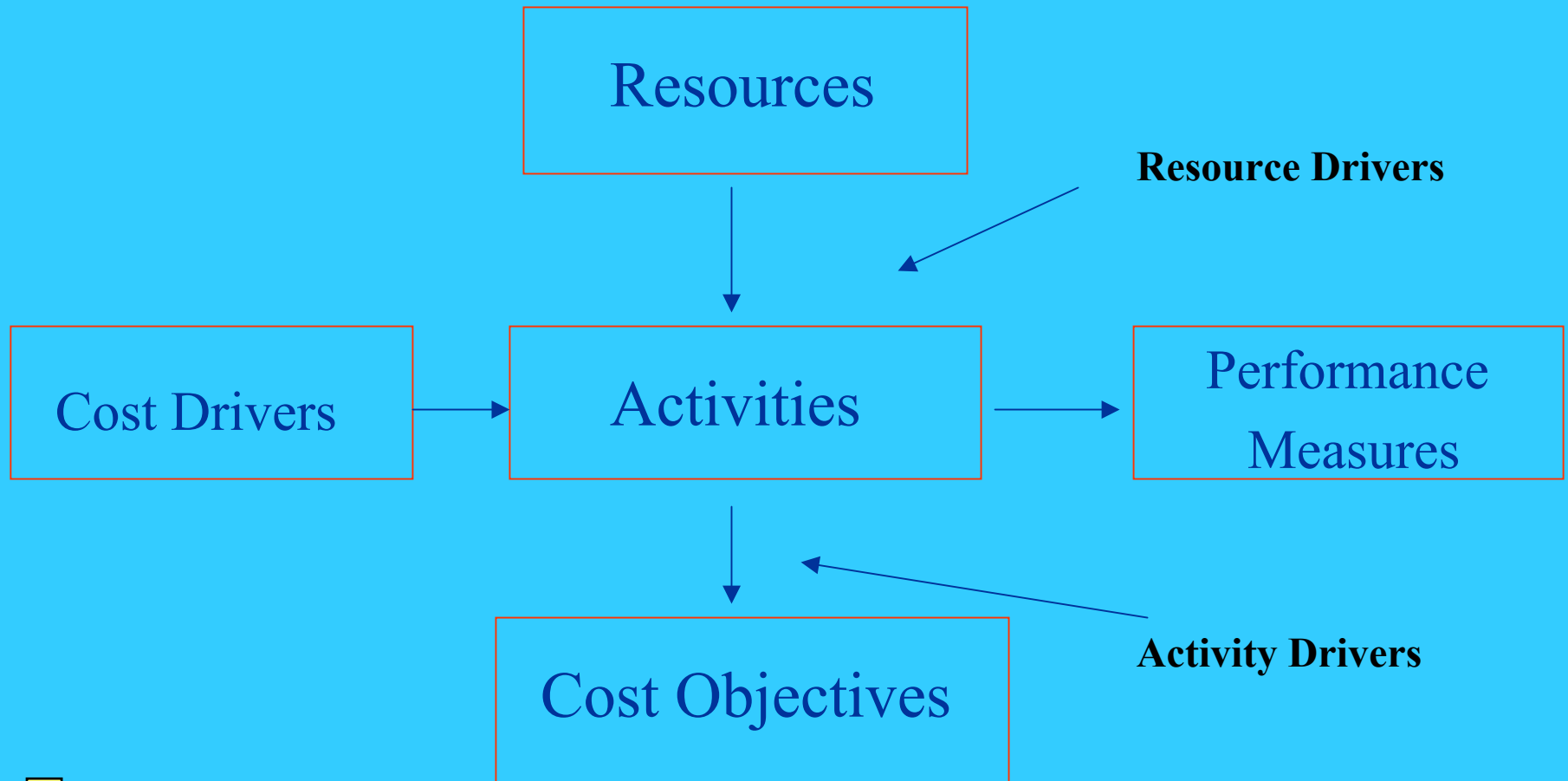


# CMS's Goals for Implementing ABC

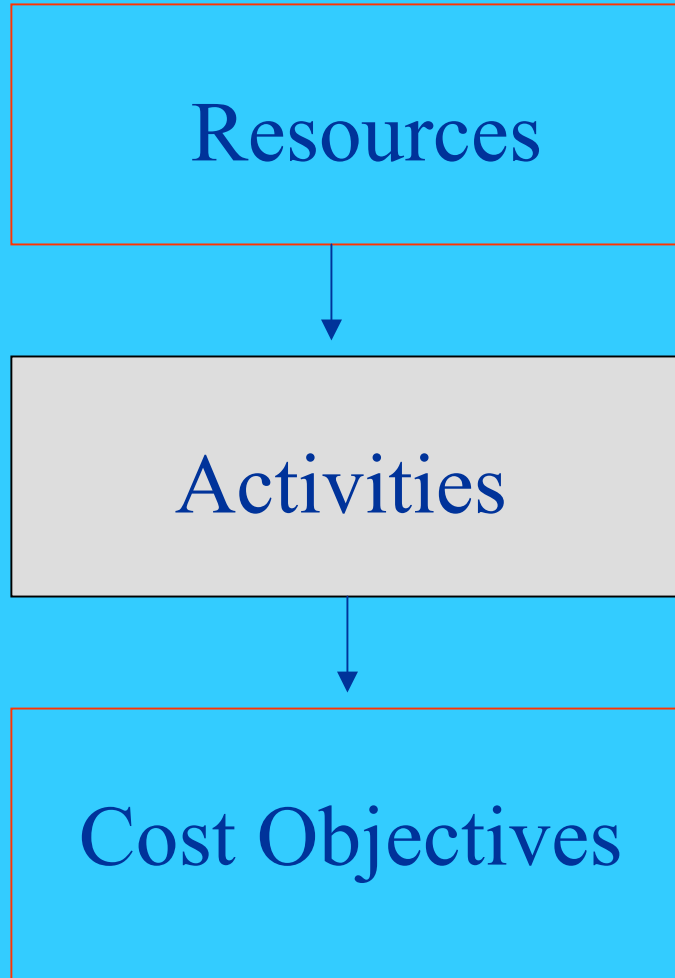
- Apply more precise cost management methodologies
- Identify the cost driver behind an activity
- Convert an “indirect” expense into a “direct” expense by assigning it to an activity
- Clarify the relationship between activities
- Eliminate non-value added processes, and;
- Present a true picture of what a discrete activity actually costs



# The Basic ABC Cost Model



# The Basic ABC Cost Model



A unit of work performed in the organization



# The Basic ABC Cost Model



Economic elements used  
in performing work



A unit of work performed  
in the organization





# Assigning Resources to an Activity

## (Direct Labor Costs)

- ◆ List staff associated with each activity
  - ④ Identify their salary and job description
  - ④ Assign cost based on percentage of their time projected for activity in FY2003
  - ④ Multiply time percentages by annual salaries
- ◆ Or calculate hours required to complete activity by personnel type
  - ④ Assign cost to hours using the appropriate hourly rate for each personnel type
- ◆ Assign fringe benefits & sum results by activity to derive total labor costs





## Methods for Determining Percentage of Staff Time Split on Activities Include:

- ◆ Time Cards and Reports
- ◆ Interviews with Managers
- ◆ Observation
- ◆ Surveys





# Assigning Resources to an Activity

## (Direct Non-Labor Costs)

Direct Expenses - travel, training, materials, postage, EDP equipment, supplies and outside contracts should be tracked to a specific activity

*Identified cost should be assigned throughout the Activity Form in CAFMII to whichever activity benefits from its expenditure*







# Assigning Expenses other than Labor

- ◆ Understand the general ledger accounts and how they accumulate cost
- ◆ Directly assign expenses when possible
- ◆ Use cost drivers and activity drivers to assign costs you cannot trace





# Assigning Overhead and G&A to an Activity

- ◆ Continue same methods referenced in MIM Section 1212.9 & MCM Section 4212.9 to derive overhead and G&A to new activities
- ◆ Financial accounting & reporting of overpayments are to be included as overhead (NOT development or recovery)



# The Basic ABC Cost Model

Resources

Economic elements used  
in performing work



Activities

A unit of work performed  
in the organization



Cost Objectives

Output, product, service,  
or customer



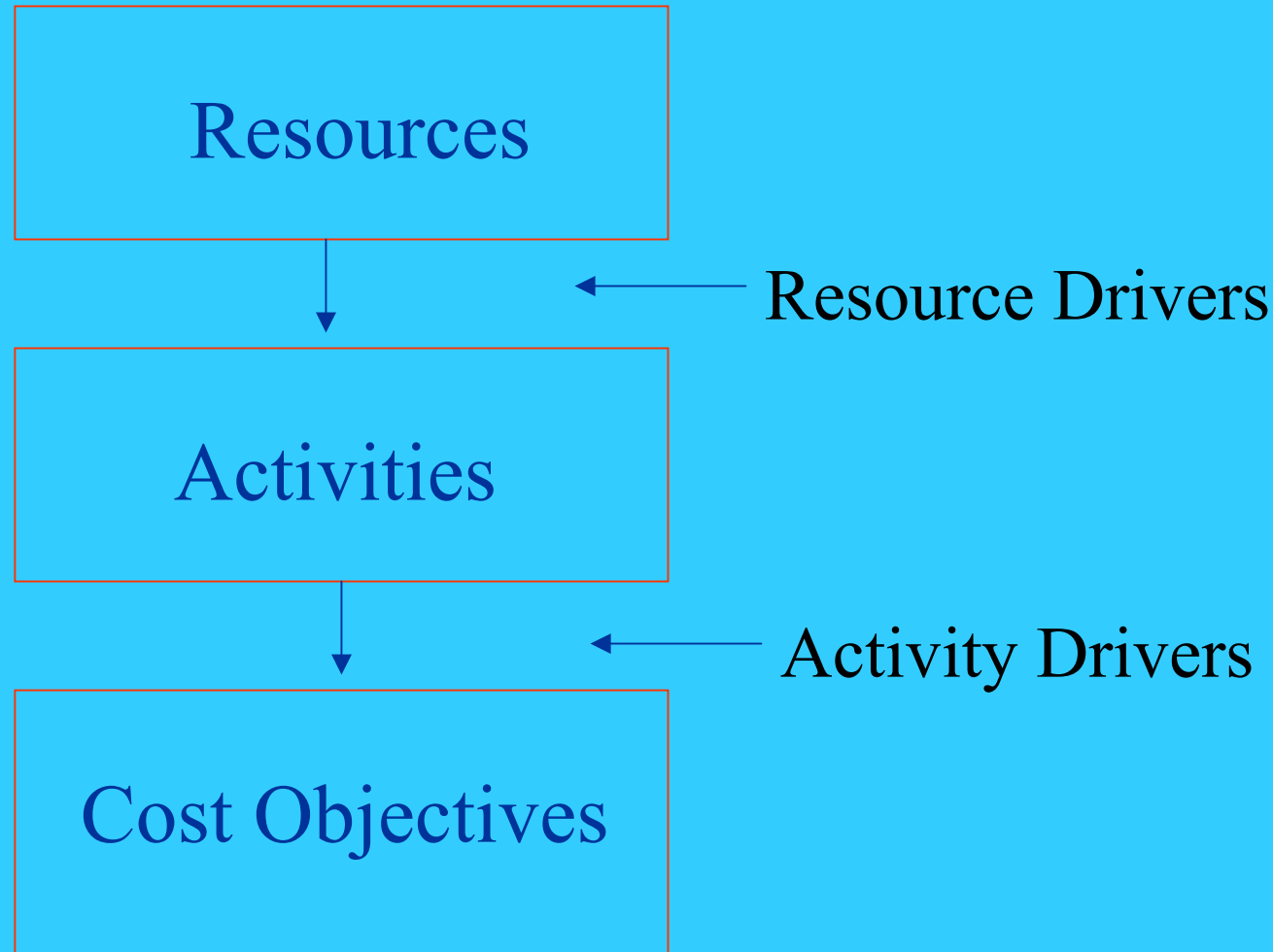


# Cost Objectives

- ◆ Cost Objectives use activities
- ◆ Cost Objects are a function of one or more cost drivers and one or more activity drivers



# The Basic ABC Cost Model



# Resource Drivers

## ◆ Resource Drivers

- ⓐ A measure of the use of a resource by an activity
- ⓐ Used to assign the cost of resources to activities

## ◆ People costs may be assigned using:

- ⓐ Percentage of time spent on each activity
- ⓐ People in each activity (FTE's)
- ⓐ Direct tracking of time / estimating methods

## ◆ Facilities costs may be assigned using:

- ⓐ Percent of space occupied

## ◆ Some resources are directly traced



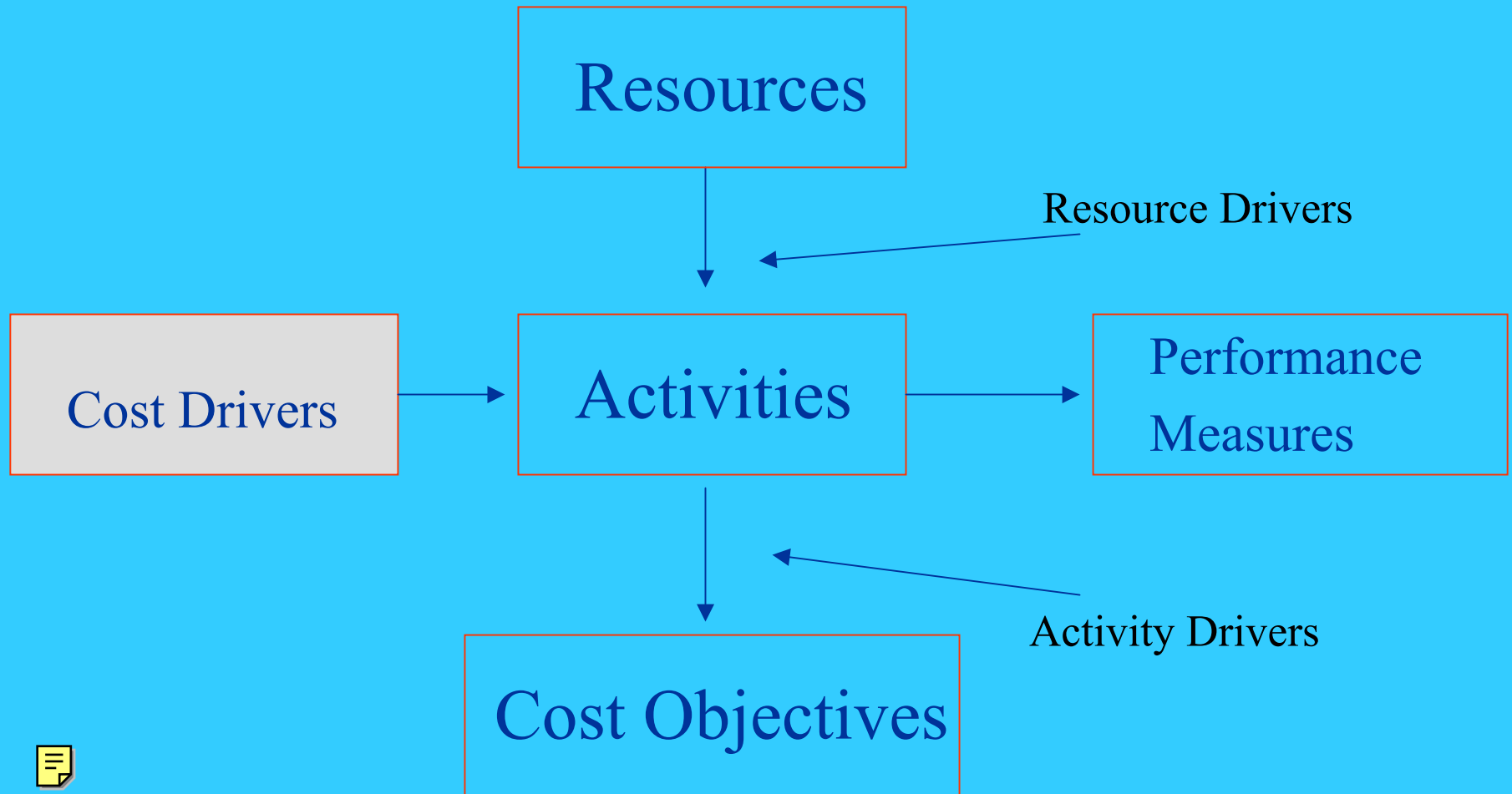


# Activity Drivers

- ◆ A measure of the frequency and intensity with which an activity is used to produce its output



# The Basic ABC Cost Model







# Examples of Cost Drivers include:

## ◆ Quantity

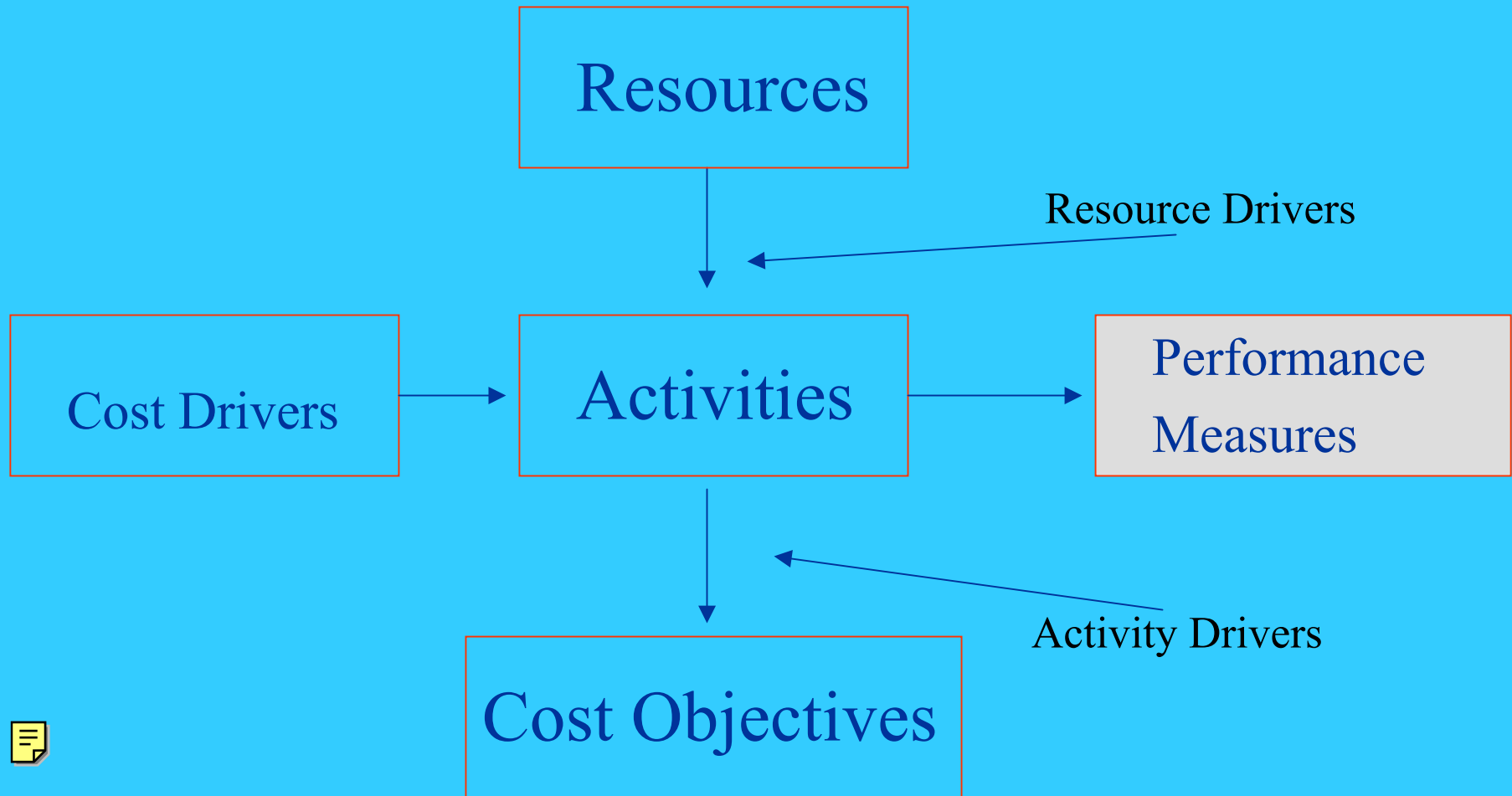
- Number of claims
- Number of inquiries
- Number of appeals, etc.

## ◆ Quality

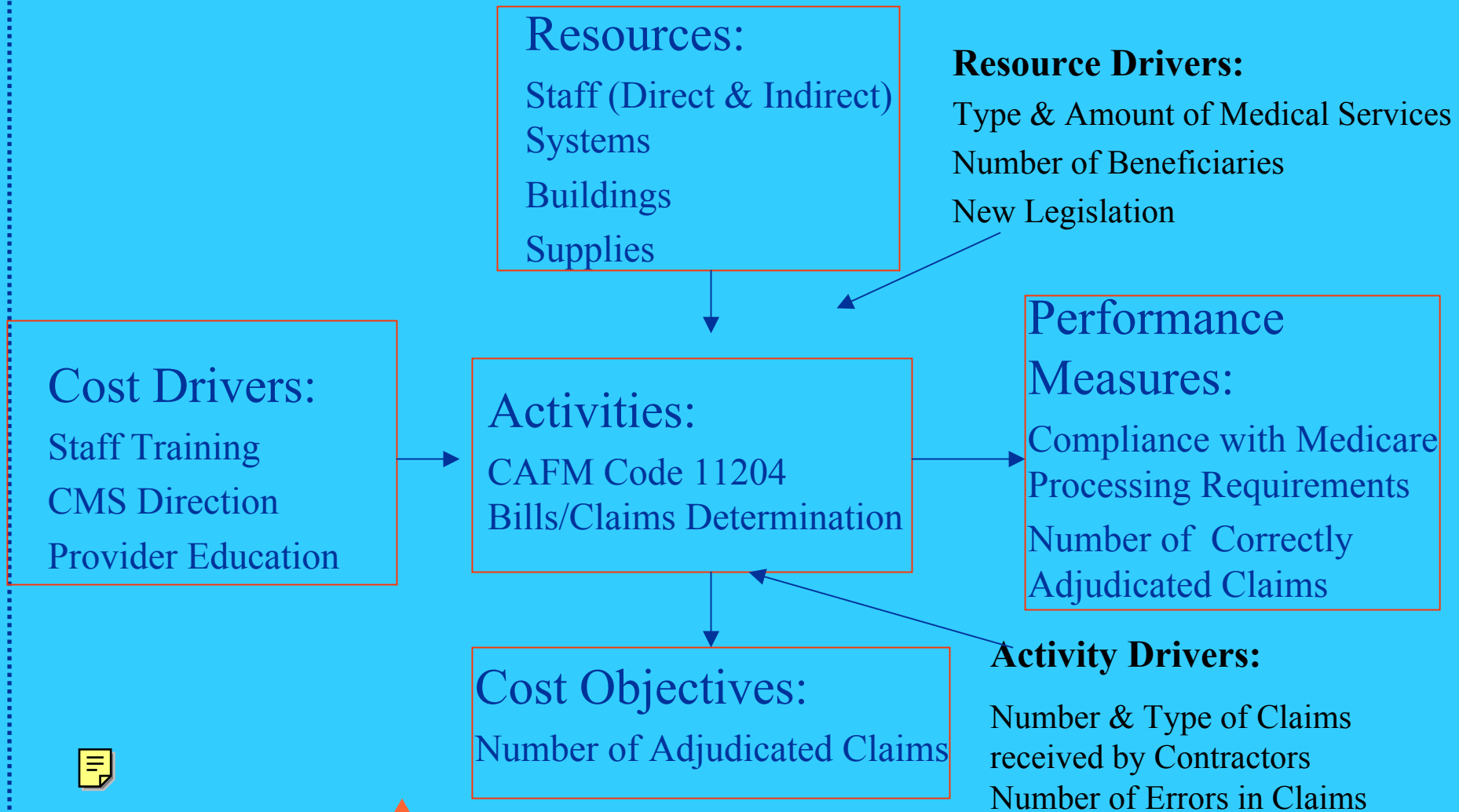
- Inadequate training
- Inaccurate documentation
- Missing information
- Time delays



# The Basic ABC Cost Model



# ABC Cost Model Applied to Medicare Claims Processing





# Major Changes in Contractor Activities for FY 2003

- ◆ Bills/Claims Payment
- ◆ Provider Enrollment
- ◆ Inquiries
- ◆ Provider Education and Training
- ◆ Appeals
- ◆ Medical Review



# ◆ Example of Dictionary

## Provider Enrollment Carrier Activity Dictionary

DRAFT

CAFM Code	Activity Name	Definition	Tasks	Workload
31001	Provider Enrollment	Provider/supplier enrollment is a critical function to ensure only qualified and eligible individuals and entities are enrolled in the Medicare program before receiving payment for services furnished to beneficiaries. Physicians, non-physician practitioners and other healthcare suppliers must enroll with the Medicare carriers with whom they will do business, using the appropriate enrollment form and undergoing the entire enrollment process, including verification/validation of their information. (Program Integrity Manual, Chapter 10)	<ul style="list-style-type: none"> <li>a. Process initial applications (CMS 855I and CMS 855B) from receipt to final decision, including verification, and within CMS timeliness standards (§1 - 5, 8, 9, 15 - 21, 25)</li> <li>b. Process, verify, and acknowledge changes of information that you receive (§3, 13)</li> <li>c. Process and verify reassignment of benefits requests (CMS 855R) (§7)</li> <li>d. Activate, deactivate and reactivate billing privileges (§3)</li> <li>e. Train staff, initial and continuing, on enrollment requirements, procedures and techniques. Also include quality control follow-up (§2)</li> <li>f. Receive and respond to all provider enrollment inquiries (§22)</li> <li>g. Develop and maintain an enrollment web site, to include bulletins and FAQs. Do not duplicate information that is on other websites that you maintain (§23)</li> <li>h. Safeguard applications and all related information according to the CMS/Business Partners Systems Security Manual (§24)</li> <li>i. Acquire information to convey to the UPIN Registry (§2)</li> <li>j. Initiate special projects as necessary or as requested by CMS</li> <li>k. Coordinate with other internal (e.g., fraud unit, PET, appeals, ROs etc.) and external (e.g., OIG, Medicaid, FBI, PSCs, etc.) components (§2)</li> <li>l. Arrange for or conduct hearings of provider enrollment appeals (§19)</li> <li>m. Perform site visits for IDTFs and other problematic suppliers (§18)</li> </ul>	<p><b>Workload 1</b> is the number of initial applications (CMS 855B, CMS 855I) received in a month. These numbers are available from the Provider Enrollment, Chain and Ownership System (PECOS) once it is operational. Until then, report via CROWD, line 4)</p> <p><b>Workload 2</b> is the number of changes of information (CMS 855I, CMS 855B) received in a month from your internal reports. These numbers will be automatically available when PECOS is operational.</p> <p><b>Workload 3</b> is the number of Reassignment of Benefits (CMS 855R) received in a month from your internal reports. These numbers will be automatically available when PECOS is operational.</p>



# Assigning Medicare Contractor Costs

- ◆ FY2003 BR and cost reports based on dictionaries
- ◆ “Tasks” are clarification only, do NOT cost individually
- ◆ Activity Form in CAFMII must be completed for each Activity
- ◆ Activity Codes are in CAFMII for FY2003 budget cycle, the ABC process is being incorporated into manuals
- ◆ Several activities have workload which also are included in the BPRs



# Current Reporting

CURRENT REPORTING FOR 24001 LPET:	
Activity Code: 24001 LPET	CAFM II 2.1.1
	Total Activity
<u>Cost Item</u>	<u>Code</u>
Salaries/Wages	186,348
Fringe Benefits	35,868
EDP Equipment	16,662
Subcontracts	373
Other Direct Cost (See Schedule A)	127,767
Other Cost (See Schedule B)	-
Non.COB Credits (See Schedule C)	-
Overhead	60,837
G&A	21,830
Fee/Profit	-
Total Cost	449,685
Other Adjustments (See Schedule D)	-
Forward Funding	-
Total Adjusted Cost	449,685

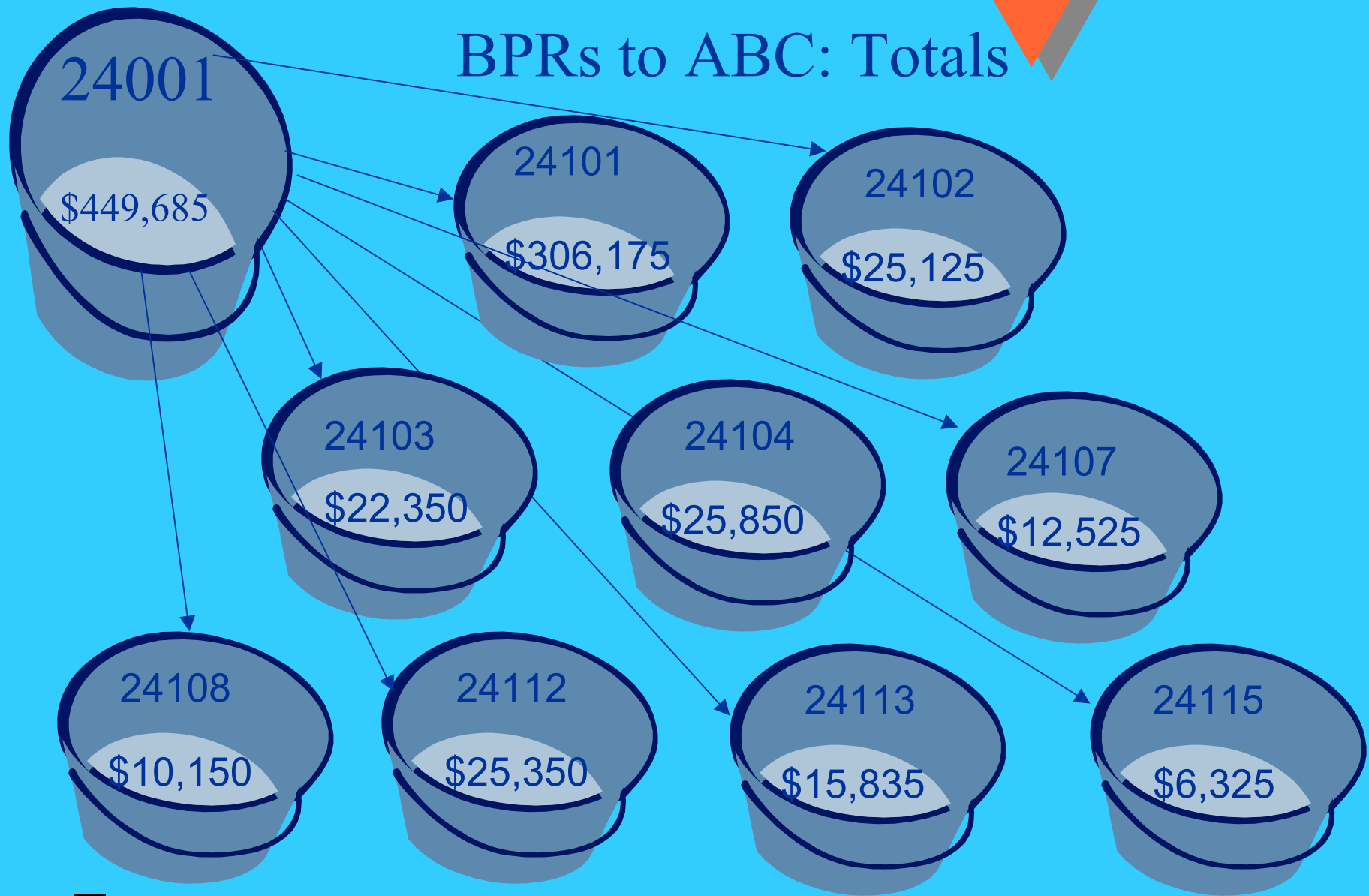


# New Reporting\*

Total Activity	
Activity Code:	<u>Code</u>
24101 Provider Specific Education	306,175
24102 Comparative Billing Report Education	25,125
24103 Education of Identified Service Errors	22,350
24104 Proactive Local Education Meetings	25,850
24107 Bullentin Articles of Local ED Issues	12,525
24108 Analysis of Information	10,150
24112 Workload Management	25,350
24113 Comprehensive ED Interventions	15,835
24115 Scripted Response Documents	6,325
Total Adjusted Cost	449,685

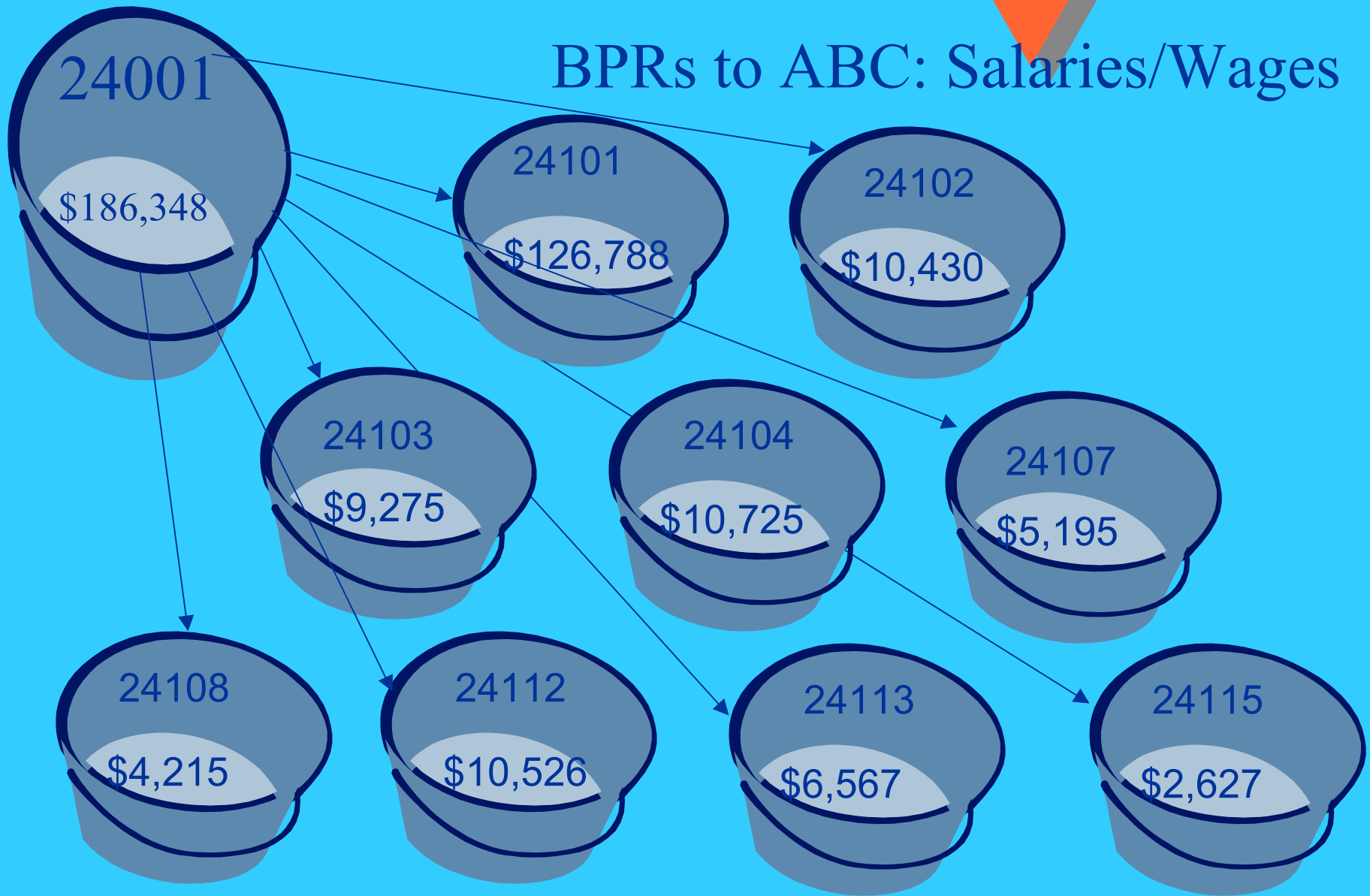
\*Shows totals only, each code will require its own form

# BPRs to ABC: Totals





# BPRs to ABC: Salaries/Wages



# BPRs to ABC

CURRENT REPORTING FOR 24001 LPET:		EXAMPLE OF NEW REPORTING:								
Activity Code: 24001 LPET	CAFM II 2.1.1	24101	24102	24103	24104	24107	24108	24112	24113	24115
	Total Activity									
<u>Cost Item</u>	<u>Code</u>									
Salaries/Wages	186,348	126,788	10,430	9,275	10,725	5,195	4,215	10,526	6,567	2,627
Fringe Benefits	35,868	24,404	2,008	1,785	2,064	1,000	811	2,026	1,264	506
EDP Equipment	16,662	11,336	933	829	959	464	380	938	587	235
Subcontracts	373	373	-	-	-	-	-	-	-	-
Other Direct Cost (Schedule A)	127,767	86,990	7,136	6,350	7,345	3,559	2,886	7,202	4,500	1,799
Other Cost (Schedule B)	-	-	-	-	-	-	-	-	-	-
Non.COB Credits (Schedule C)	-	-	-	-	-	-	-	-	-	-
Overhead	60,837	41,421	3,399	3,025	3,502	1,699	1,360	3,428	2,149	854
G&A	21,830	14,862	1,220	1,085	1,255	608	498	1,230	768	304
Fee/Profit	-	-	-	-	-	-	-	-	-	-
Total Cost	449,685	306,175	25,125	22,350	25,850	12,525	10,150	25,350	15,835	6,325
Other Adjustments (Schedule D)	-	-	-	-	-	-	-	-	-	-
Forward Funding	-	-	-	-	-	-	-	-	-	-
Total Adjusted Cost	449,685	306,175	25,125	22,350	25,850	12,525	10,150	25,350	15,835	6,325





## CMS Resources for Information

- ◆ ABC Website: internal- [cmsnet.cms.hhs.gov/hpages/ofm/](http://cmsnet.cms.hhs.gov/hpages/ofm/)  
external - [www.cms.hhs.gov/contractors/abc/abc2.asp](http://www.cms.hhs.gov/contractors/abc/abc2.asp)
- ◆ Point of Contact for each RO
- ◆ Point of Contact for each Contractor
- ◆ ABCWORKGROUP@cms.hhs.gov

## External Resources for Information

- ◆ Activity-Based Cost Management, Conkins, Gary. McGraw-Hill Co, Inc., 1996.
- ◆ Common Cents, Turney, Peter. Cost Technology, 1991.
- ◆ Activity-Based Management in Government, Kehoe, Joseph. Coppers&Lybrand, 1995.

